Anthony A. Williams
Mayor

Thomas E. Hampton
Commissioner

Market Conduct Examination

Government of the District of Columbia
Department of Insurance, Securities, and Banking

(NAIC ACCREDITED)

Government of the District of Columbia
Department of Insurance, Securities and Banking

Thomas E. Hampton
Commissioner

August 25, 2006

I, Thomas E. Hampton, Commissioner of Insurance, Securities and Banking of the District of Columbia, hereby certify that I have compared the annexed copy of the

LIMITED SCOPE MARKET CONDUCT EXAMINATION REPORT

FOR THE

HEALTH RIGHT INC.

AS OF JUNE 30, 2002

With the original on file in this Department and the same is a correct transcript there from, and of the whole of said original.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of this Department, at the City of Washington, the day and year first written

Thomas E. Hampton
Commissioner of Insurance, Securities and Banking

Market Conduct Examination Draft Report of

HEALTH RIGHT INC.

For the Period

January 1, 1999 through June 30, 2002

TABLE OF CONTENTS

July 20, 2006

Honorable Thomas E. Hampton
Commissioner, District of Columbia
Department of Insurance and Securities Regulation
810 First Street, NE, Suite 701
Washington, DC 20002

Commissioner:

Under the provisions of the District of Columbia Official Code, Title 31, Section 1401 et seq., an examination was made of the conduct, performance, and practices of

HEALTH R RIGHT, INC.

with administrative offices located at 1101 14th Street, NW. Suite 900, Washington, DC., 20005. This market conduct examination, as of June 30, 2002, reflects the managed care activities for Health Right, Inc., hereinafter referred to as the "Company". The assigned National Association of Insurance Commissioners (NAIC) individual code number is 95787.

FORWARD

This examination is a systematic investigation of Company documents, procedures, and systems conducted in accordance with the guidelines and procedures recommended by the NAIC. The examination report generally notes only those areas or items which the Department of Insurance, Securities and Banking (DISB) takes exception. A violation is any instance of Company activity that does not comply with a statute or regulation. Company policies, practices and procedures are only commented on for the purposes of giving the reader clarity. The examination report may include management recommen-

dations addressing areas of concern noted by DISB but which no statutory violation exists.

The on-site phase of the examination was conducted at the Company's administrative office. In reviewing material for this report, the examiners relied primarily on records and materials furnished by the Company.

SCOPE OF EXAMINATION

This examination covers the period January 1, 1999 through June 30, 2002. Any subsequent events, if any, would be noted and included in all sections of the report up to the last day of fieldwork. The examination fieldwork commenced on January 29, 2003 and concluded September 30, 2003.

During the course of this examination, the Company's commercial operations were reviewed using tests prescribed in the NAIC Examiners Handbook, Volume II, Chapter XVII to determine if the Company was meeting established industry standards. Below is a list of the business areas where NAIC standards were applied. Across from each business area are the test standards that can be referenced into the NAIC Examiners Handbook. Each failed standard is commented on in the body of this report.

BUSINESS AREA	NAIC STANDARDS APPLIED
(A) Operations;	A1, A2, A4, A6, A8, A9, A10, A11, and A12, A16
(B) Complaint handling;	B1, B2
(D) Marketing and sales;	D1
(E) Network adequacy;	E1, E2, E3, E5, E8
(L) Claim practices.	L4, L5, L6, L7, L8, L9, L11

The District of Columbia's Medical Assistance Administration (DCMAA) contracts with an external quality review organization (EQRO) that evaluates the quality assurance program of each managed care organization (MCO) contracting with the DCMAA to provide care for Medicaid enrollees. The EQRO for the DCMAA is the Delmarva Foundation of the District of Columbia (Delmarva). Delmarva annually evaluates the Company performance in the areas of "Provider Credentialing", "Quality Assessment and Improvement" and "Utilization Review".

The authority provided under D.C. Official Code, Section 31-1401 et seq., allows DISB to conduct an examination concerning the quality assurance program of the Company. The examiners sought authoritative guidance for relying on the work and reports of others who have examined components of the Company's quality assurance program. The examiners deemed it prudent under the circumstances to review the work papers of Delmarva and then would decide if further work needed to be performed.

The Examiners did not comment in this examination report on the Company's functional activities of "Provider Credentialing", "Quality Assessment and Improvement", and "Utilization Review" by accepting the work and the report of Delmarva.

The examiners were provided work papers by the Company's current independent auditor, Squire, Lemkin & O'Brien, L.L.P., which were reviewed. Certain procedures and conclusions documented in those work papers have been relied upon and copied for inclusion into the work papers of this examination.

When conducting an exam that reviews many of the aforementioned functional activities, there are essential tests that should be completed. The testing approach used for this examination is not limited to Chapter VI of the NAIC Market Conduct Handbook.

Some unacceptable or non-complying practices may not have been discovered in the course of this examination. Failure to identify or criticize specific practices does not

constitute acceptance of such practices by DISB. This report should not be construed to endorse or discredit the Company or its healthcare product.

COMPANY PROFILE

History

Health Right, Inc. was incorporated on November 1, 1996 under the applicable provisions of the District of Columbia's Business Corporation Act and commenced business on April 15, 1998. Health Right, Inc. is a managed care organization duly licensed in the District of Columbia and is unique because it is owned by the only Federally Qualified Health Center (FQHC) in the District of Columbia, Unity Health Care and Columbia Road Health Services.

The Company is wholly owned by Unity Health Care, Inc. at ninety-seven percent (97%) and the Columbia Road Health Services at three percent (3%), both not for-profit community governed organizations whose mission is to provide health care services to the underserved population of Washington D.C. The Company is a for profit organization domiciled in Washington, D.C. The Board is comprised of representatives from the parent organization and all the capital has been provided by the parent organization. All revenue is generated by the Medicaid contract with the District of Columbia.

The Managed Care Assistance Corporation will function as the corporate and Management arm of Health Right. The Company, through Unity and Columbia's Clinic, will function as the health care provider. The Company will retain ultimate management oversight through the Board of Directors.

The District's privatization of the delivery method for healthcare under a managed care system redefined the provision of care to be furnished through "businesslike" transactions, that is, Medicaid healthcare became a commodity. The commodity of healthcare is supplied through a company's delivery system or network and governed by the terms of the D.C. Medicaid contract and subsequent contractual relationships between the

MCO and its providers and enrollees. Effectively, a Medicaid MCO is a business whose product is Medicaid healthcare administration, delivery and financing. To conduct this business in D.C. requires a certificate of authority from DISB.

The 1998 Contract expired on March 31, 2000, but the Office of Contracting and Procurement (OCP) extended an invitation to all MCO contractors to continue providing services to enrollees until a new contract became effective. The next D.C. Medicaid contract was dated April 1, 2000 and expired on March 31, 2001 with the contract process continuing throughout the period under examination.

Officers and Directors

The officers of the Company as of the examination date are as follows:

Vincent Keane	President
Allen Goetcheus	Secretary
Allen Goetcheus	Treasurer

The authority of each officer is spelled out in the bylaws and further defined by employment contracts and/or job descriptions. The president, Vincent Keane, has the overall executive responsibility for the management of the corporation and is directly responsible for carrying out the orders of the Board. The Company's secretary and Treasurer, Allen Goetcheus, is responsible for maintaining the corporate records.

The board of directors is the overall governance body for the Company. Board members, like officers, have a fiduciary duty to act in the best interests of the Company and cannot put their own interests ahead of the Company.

Management and Administrative Services Agreement

On January 1, 2000, the Company entered into a management and administrative service agreement with Unity Health Care, Inc. (UHC) to provide senior support, payroll, financial and account services. This agreement also provides the services of UHC's Executive Director and Medical Director part-time, to function as the Chief Executive Officer and Medical Director of the Company. In accordance with the agreement, the Company shall reimburse UHC for total compensation including salary and fringe benefits not to exceed 25% of the annual salary of the CFO or any designated employee. The agreement expired on December 31, 2001 and was automatically renewed on January 1, 2002 and will continue to renew on the anniversary date unless terminated by the Company

METHODOLOGY

The examination process consists of a sequence of activities. Obtaining and confirming an understanding of the company's operational system is vital in the examination process. This step is performed through transaction reviews and interviews with company personnel.

After obtaining operational knowledge, an evaluation or risk assessment is performed of the company's unique characteristics, identifying and summarizing the major risks that then drive the individual exam area strategies.

The examiner's judgment determines the specific procedures, plans and tests appropriate for each exam area. The standards were measured using tests designed to adequately measure how the company met the standard. Each standard applied is listed under the caption, "Scope of Examination". Each failed standard is later described in the body of the report under its respective area of review.

NAIC STANDARDS REVIEWED BY FUNCTION

Operations

Comments: The evaluation of standards in this business area is based on a review of Company responses to the information requested, questions asked, staff interviews and general representations made to the examiners.

NAIC Standard A-1
The company has an up-to-date, valid internal or external audit program.

Comments: The review methodology for this standard does not have a direct statutory requirement. A company that has no internal audit function lacks the ready means to detect problems until after problems occur.

Findings: Nothing came to the attention of the examiner to note the Company was not in compliance with this standard.

Observations: None

NAIC Standard A-2
The company has appropriate controls, safeguards and procedures for protecting the integrity of computer information.

Comments: The review methodology for this standard does not have a direct statutory requirement. A company's failure to provide appropriate control procedures for protecting data stored on its information system could cause harm to members. Policies, standards, guidelines, and procedures are the blueprints for the examiners to determine if the company has a successful information security program.

Findings: Nothing came to the attention of the examiner to note the Company was not in compliance with this standard.

Observations: None

NAIC Standard A-4
The company has a valid disaster recovery plan.

Comments: The review methodology for this standard does not have a direct statutory requirement. Disaster recovery planning is concerned with the resources, processes, and equipment needed to restore business facilities when a disaster has struck. Recovery plans involve employee teams that spring into action to keep the critical function performing and working to restore the original facilities to return to business as usual.

Findings: Nothing came to the attention of the examiner to note the Company was not in compliance with this standard.

Observations: None

NAIC Standard A-6
Records are adequate, accessible, consistent and orderly and comply with state record retention requirements.

Comments: The review methodology for this standard does not have a direct statutory requirement, however the standard is inferred by D.C. Official Code § 31-1403(b) that states in part every company or person from whom information is sought must provide free access to all documents and affairs under examination at all reasonable hours at its offices. This standard is intended to assure that an adequate and accessible record exists of the company's transactions.

Findings: Nothing came to the attention of the examiner to note the Company was not in compliance with this standard.

Observations: None

NAIC Standard A-8
The company cooperates in a timely basis with examiners performing the examination.

Comments: The review methodology for this standard does not have a direct statutory requirement, however the standard is inferred by D.C. Official Code § 31-1403(b) that states in part every company or person from whom information is sought must provide free access to all documents and affairs under examination at all reasonable hours at its offices. This standard is intended to assure that the company is cooperating with the regulatory jurisdiction in the completion of an open and cogent review of the company's operations in the District.

Findings: Nothing came to the attention of the examiner to note the Company was not in compliance with this standard.

Observations: None

NAIC Standard A-9
The company has procedures for the collection, use and disclosure of information gathered in connection with insurance transactions so as to minimize any improper intrusion into the privacy of applications and policyholders.

Comments: The review methodology for this standard does not have a direct statutory requirement; however the standard is inferred by D.C. Official Code, Title 31, Section 3301.01 et seq. A company's failure to provide appropriate level of compliance with each of the HIPAA Privacy Rules would expose it to enforcement by federal agencies.

Findings: Nothing came to the attention of the examiner to note the Company was not in compliance with this standard.

Observations: None.

NAIC Standard A-10
The company has developed and implemented written policies, standards, and the procedures for the management of insurance information.

Comments: The review methodology for this standard does not have a direct statutory requirement. A company's failure to provide appropriate control procedures for protecting insurance data could cause harm to enrollee/members.

Findings: Nothing came to the attention of the examiner to note the Company was not in compliance with this standard.

Observations: None

NAIC Standard A-11
The company has policies and procedures to protect the privacy of nonpublic personal information relating to its customers, former customers and consumers that are not customers.

Comments: The review methodology for this standard does not have a direct statutory requirement. Security and privacy go hand in hand and both are mainly administrative policies and procedures.

Findings: Nothing came to the attention of the examiner to note the Company was not in compliance with this standard.

Observations: None

NAIC Standard A-12
The company provides privacy notices to its customers and if applicable, to its consumers who are not customers regarding treatment of nonpublic personal financial information.

Comments: The review methodology for this standard does not have a direct statutory requirement. Security and privacy go hand in hand and both are mainly administrative policies and procedures.

Findings: Nothing came to the attention of the examiner to note the Company was not in compliance with this standard.

Observations: None

NAIC Standard A-16
Each licensee shall implement a comprehensive written information security program for the protection of nonpublic customer information.

Comments: The review methodology for this standard does not have a direct statutory requirement. Security and privacy go hand in hand and both are mainly administrative policies and procedures.

Findings: Nothing came to the attention of the examiner to note the Company was not in compliance with this standard.

Observations: None

Complaint Handling

Comments: In the absence of statutes, rules, regulations, the examiners reviewed the Company's underlying written policies and procedures and complaint register. The evaluation of standards in this business area was also based on Company responses to the information requested, questions asked, staff interviews and general representations made to the examiners.

Observations: The complaint and appeal data reviewed does not take into account the many members that never even make an initial complaint to the Company. Instead, members complain with their feet and drop their healthcare or, even worse, just accept the Company's medical care decision that they feel is unjust.

NAIC Standard B-1
All complaints are recorded in the required format on the company complaint register.

Comments: The review methodology for this standard does not have a direct statutory requirement. This standard is concerned with whether the company keeps formal track of complaints or grievances.

Findings: Nothing came to the attention of the examiner to note the Company was not in compliance with this standard.

Observations: None

NAIC Standard B-2 The company has adequate complaint handling procedures in place and communicates such procedures to policyholders

Comments: The review methodology for this standard does not have a direct statutory requirement.

Findings: Nothing came to the attention of the examiner to note the Company was not in compliance with this standard.

Observations: None

Marketing and Sales

Comments: The evaluation of standards in this business area is based on review of Company responses to the information requested, questions asked, staff interviews and general representations made to the examiners. This review area of the examination is designed to evaluate the representation made by the Company's product and services. The material considered in this kind of review includes all media (radio, television, internet, etc.), written and verbal advertising and sales materials.

NAIC Standard D-1 All advertising and sales materials are in compliance with applicable statutes, rules and regulations

Comments: The review methodology for this standard is based on the Company's compliance with its DC Medicaid contract.

Findings: Nothing came to the attention of the examiner to note the Company was not in compliance with this standard.

Observations: None

Network Adequacy

Comment: One of the primary functions of a managed care company, such as the Company, is to arrange for the delivery of high-quality healthcare services to plan members. Because the plan members interact with the company primarily through its providers, the design and monitoring of its network are critical to a company's success.

The network adequacy portion of the examination is designed to assure that the Company is offering its enrollees and members a provider service network sufficient to assure that all services are accessible without unreasonable delay. For the purposes of this examination report, adequacy is defined as the extent to which a network offers the appropriate types and numbers of providers in the appropriate geographic distribution according to the needs of the plan's members.

The Company is one of several HMOs in the Washington metropolitan area arranging Medicaid service. In this public-sector program, enrollees in the Company's managed care plan may have no option to seek care from providers other than the ones contracted by the Company without disenrolling.

NAIC Standard E-1
The health carrier demonstrates, using reasonable criteria that it maintains a network that is sufficient in number and types of providers to assure that all services to covered persons will be accessible with unreasonable delay.

Comments: The review methodology for this standard does not have a direct statutory requirement. Under the terms of the NAIC's Managed Care Plan Network Adequacy Model Act, all managed care plans would be required to develop standards to be used in the selection of providers.

Findings: Nothing came to the attention of the examiner to note the Company was not in compliance with this standard.

Observations: None

NAIC Standard E-2

The health carrier files an access plan with the commissioner for each managed care plan that the carrier offers in the state, and files up dates whenever it makes a material change to an existing managed care plan. The carrier makes the access plans available: 1) on its business premise, 2) to regulators, and 3) to interested parties absent proprietary information upon request.

Comments: The review methodology for this standard does not have a direct statutory requirement.

Findings: Nothing came to the attention of the examiner to note the Company was not in compliance with this standard.

Observations: None

NAIC Standard E-3

The health carrier files with the commissioner all required contract forms, and any material changes to a contract forms, and any material changes to a contract, proposed for use with its participating providers and intermediaries.

Comments: The review methodology for this standard does not have a direct statutory requirement.

Findings: Nothing came to the attention of the examiner to note the Company was not in compliance with this standard.

Observations: None

NAIC Standard E-5

The health carrier executes written agreements with each participating provider that are in compliance with statutes, rules, and regulations.

Comments: The review methodology for this standard does not have a direct statutory requirement. This standard is aimed at assuring that the billings from participating pro-

viders are in agreement with contract provisions and for the examiners to assure enrollee/members that the HMO is informing them timely of network provider changes.

Findings: Nothing came to the attention of the examiner to note the Company was not in compliance with this standard.

Observations: None

NAIC Standard E-8
The health carrier provides at enrollment a Provider Directory listing all providers participating in its network. It also makes available, on a timely and reasonable basis, updates to its directory.

Comments: The review methodology for this standard does not have a direct statutory requirement. This standard is intended to assure that the enrollee/member has access to current information concerning providers participating in the network.

Findings: Nothing came to the attention of the examiner to note the Company was not in compliance with this standard.

Observation: None

Claim Practices

Comments: A claim is an itemized statement of healthcare services. Claim forms represent costs provided by hospitals, physician's offices, or other provider facilities. The claim form submitted by the provider is their application for payment. The claims function within any company varies according to the type of provider.

Observations: The examiners were told by the Company that Science Corporation processes all claims and reports with the MHS operating system.

NAIC Standard L-1
The initial contact by the company with the claimant is within the required time frame.

Comments: The review methodology for this standard does not have a direct statutory requirement.

Findings: Nothing came to the attention of the examiner to note the Company was not in compliance with this standard.

Observations: None.

NAIC Standard L-2
Investigations are conducted in a timely manner.

Comments: The review methodology for this standard does not have a direct statutory requirement.

Findings: Nothing came to the attention of the examiner to note the Company was not in compliance with this standard.

Observations: None

NAIC Standard L-3
Claims are settled in a timely manner as required by statutes, rules and regulations.

Comments: The review methodology for this standard does not have a direct statutory requirement but the Medicaid Contract Article IV – Subcontracts, Section M states in part that the provider shall pay health care providers on a timely basis consistent with the claim payment procedures described in Section 1902(a)(37)(A) of the Social Security Act.

Findings: Nothing came to the attention of the examiner to note the Company was not in compliance with this standard.

Observations: None.

NAIC Standard L-4
The company responds to claim correspondence in a timely manner.

Comments: The review methodology for this standard does not have a direct statutory requirement.

Findings: Nothing came to the attention of the examiner to note the Company was not in compliance with this standard.

Observations: None.

NAIC Standard L-5
Claim files are adequately documented.

Comments: The review methodology for this standard does not have a direct statutory requirement.

Findings: Nothing came to the attention of the examiner to note the Company was not in compliance with this standard.

Observations: None.

NAIC Standard L-6
Claims files are handled in accordance with policy provisions, HIPPA and date law.

Comments: The review methodology for this standard has direct statutory requirement.

Findings: Nothing came to the attention of the examiner to note the Company was not in compliance with this standard.

Observations: None.

NAIC Standard L-8
Claim files are reserved in accordance with the company's established procedures.

Comments: The review methodology for this standard does not have a direct statutory requirement.

Findings: Nothing came to the attention of the examiner to note the Company was not in compliance with this standard.

Observations: None.

NAIC Standard L-9
Denied and closed-without-pay claims are handled in accordance with the policy provisions, HIPAA and state law.

Comments: The review methodology for this standard does not have a direct statutory requirement.

Findings: Nothing came to the attention of the examiner to note the Company was not in compliance with this standard.

Observations: None.

NAIC Standard L-11
Claim handling practices do not compel claimants to institute litigation in cases of clear liability and coverage, to recover amounts due under policies by offering substantially less than is due under the policy.

Comments: The review methodology for this standard has a direct statutory requirement. D.C. Official Code § 31-2231.17(a)(7) states in part that no person shall compel insureds or beneficiaries to institute suits to recover amounts due under its policies by offering substantially less than the amounts ultimately recovered in actions brought by the insureds or beneficiaries.

Findings: Nothing came to the attention of the examiner to note the Company was not in compliance with this standard.

Observations: None.

SUMMARY OF FINDINGS

Nothing came to the attention of the examiner to note the Company was not in compliance with all standards identified in this report.

ACKNOWLEDGMENT

In addition to the undersigned, George Rabb, CPA, CFE, CIE, CPCU, FLMI with Creative Management Resources performed the field work for this examination, Jeffery Johnson, AIE and Janet LeGore with DISB reviewed the supporting work papers in preparation for the written report.

Respectfully submitted,

William F. McCune, Supervisory Insurance Examiner
For the District of Columbia
Department of Insurance and Securities Regulation